BUSINESS RELATIONS BETWEEN INDONESIA AND JAPAN

J. PANGLAYKIM

JAPANESE INVESTMENT, particularly that directed through multinational corporations (MNCs), occupies a large and ever increasing role in countries throughout the world. However, its significance is particularly important in the ASEAN region where Japanese national strength could possibly conflict with domestic aspirations and objectives. The countries in this region have found that their relationship with Japan, determined to date through a series of ad hoc policies, is not satisfactory. What is now required is a thoroughgoing assessment of the prevailing situation to formulate a long-term policy which will enable us to be a strong host to these MNCs, directing their activities along lines consistent with the achievement of predetermined goals of development.

Let us begin this assessment by examining the Japanese position in terms of her business relationships with various regions particularly those between Japan and Indonesia. We will focus our attention on the many aspects from which such business relationships can be viewed. These include (1) volume and composition of trade, (2) Japanese-based multinational corporations handling these business relations, (3) behavioral characteristics of the managers, (4) markets, (5) investment, (6) policies, and (7) institutional setting.

I. VOLUME AND COMPOSITION OF TRADE

In trade volume, Japan's share of Indonesian imports is on the increase. Table I shows that the Japanese component of imports stood at 28.1 per cent in 1967 and had reached 33.2 per cent by 1971. Our own estimates would put this figure at

TABLE I
INDONESIA'S TRADE WITH JAPAN

(U.S.$ million)

	1967	1968	1969	1970	1971
Import:					
Total imports	649.2	715.8	780.7	1,001.5	1,173.9
Total imports from Japan	181.9	159.2	225.9	294.5	389.6
Per cent	28.1	22.2	29.0	29.4	33.2
Export:					
Total exports	665.4	730.8	853.7	1,160.6	1,246.9
Total exports to Japan	194.5	179.6	255.9	452.3	529.5
Per cent	29.2	24.6	29.9	38.9	42.5

Source: Bank Indonesia, *Indonesian Statistical Bulletin*, March 1973.

approximately 40–45 per cent of total imports by 1973.

One important reason for this trend could be the increased aid to Indonesia together with higher levels of investment in the manufacturing, extractive, forestry, and other sectors.

As will be discussed later, Japanese investment has generally entered Indonesia through the establishment of joint ventures and it is true that these are usually designed in such a way that the machines, equipment, spare parts, and raw materials are imported from Japan.

This feature becomes more formalized in the presence of the so-called package deal increasingly associated with such joint ventures. Under this arrangement the Japanese partner undertakes to supply not only the equipment and machinery but also to provide the Indonesian partner with loan-equity capital, managerial and technical know-how, etc.

Such arrangements are not necessarily advantageous as problems can arise due to the compulsion of buying only from Japan. At the least it is true to say that, due to the growth of both the joint venture and the package deal, our imports are becoming increasingly concentrated and dependent upon Japan.

Together with these joint ventures, Indonesian manufacturers and importers prefer Japanese products while even ventures with Hong Kong, Singapore, and other countries may purchase their requirements from Japan. The reasons for this are twofold: not only are prices lower but delivery times are shorter. A difference of two months in delivery with an average interest rate of 2 per cent a month represents an increase in cost price of 4 per cent which can be very substantial in a competitive market. It is known to many businessmen that BE credit from Japan is therefore in high demand.

With the possibility of opening letters of credit through business and bank relations in Hong Kong and Singapore or through the various Japanese trading houses (*shōsha*—Mitsubishi, Marubeni, C. Itoh, Sumitomo, etc.), letters of credit can be shortened as they need only be opened when goods are to be shipped to Indonesia.

While total imports from Japan are on the increase in both relative and absolute dollar terms (see Table II), traditional import commodities such as textiles are decreasing. Heavy investment in Indonesia by Japanese giants such as Toray, Teijin, etc. contributes to an increase in domestic production which, when coupled with a number of joint ventures and domestic projects, continually reduces the need to import this commodity.

Imports of finished textiles were 61.3 per cent of total imports in 1960 and by 1970 they were only 9.1 per cent. A domestic textile production of 225.0 million meters in 1967 increased to 852.0 million meters in 1972/73. With the development of Indonesia's industrial sector there is an increasing volume of capital goods and raw materials being imported from Japan. This factor is largely attributable to the growth of joint ventures not only in manufacturing and forestry but also in the extractive, agriculture and financial-service sectors.

Exports to Japan are also increasing substantially. From only 29.2 per cent of the Indonesian total in 1967 and 38.9 per cent in 1970 (Table I) they have risen

TABLE II

JAPAN'S EXPORTS TO INDONESIA

(U.S.$ million)

	1960	1965	1970	1965/60	1970/65	1960(%)	1970(%)
Total	110.2	207.2	315.8	1.88	1.52	100.0	100.0
Food	0.2	2.2	23.0	11.00	10.45	0.2	7.3
Raw fuel	0.2	1.7	6.0	8.50	3.53	0.2	1.9
Chemical products	1.4	16.3	37.7	11.64	2.31	1.3	11.9
Textile products	67.6	45.5	28.6	0.67	0.63	61.3	9.1
Nonmetal Products	1.9	5.8	9.3	3.05	1.60	1.7	2.9
Metal products	10.9	29.3	62.3	2.69	2.13	9.9	19.7
Machinery	19.9	79.4	119.3	3.99	1.50	18.1	37.8
Others	8.1	27.1	29.7	3.34	1.10	7.4	9.4

Sources: Japan, Ministry of International Trade and Industry, *Tsūshō hakusho* [White paper on international trade], various issues; [6].

TABLE III

JAPAN'S IMPORTS FROM INDONESIA

(U.S.$ million)

	1960	1965	1970	1965/60	1970/65	1960(%)	1970(%)
Total	70.3	149.3	636.6	2.12	4.26	100.0	100.0
Foodstuffs:	2.0	5.4	19.4	2.70	3.59	2.8	3.0
Sugar*	0.1	4.3	3.9	43.00	0.91	0.1	0.6
Coffee beans	0.2	0.3	0.7	1.50	2.33	0.3	0.1
Frozen shrimp	n.a.	n.a.	8.8	—	—	—	1.4
Corn	n.a.	n.a.	3.7	—	—	—	0.6
Raw materials:	16.0	57.6	241.8	3.60	4.20	22.8	38.0
Palm oil	3.0	4.3	4.4	1.43	1.02	4.3	0.7
Natural rubber	1.6	34.1	13.1	21.31	0.38	2.3	2.1
Latex	1.8	3.4	0.9	1.89	0.26	2.6	0.1
Bauxite	3.1	5.1	9.2	1.65	1.80	4.4	1.4
Lumber	n.a.	1.6	176.4	—	110.25	—	27.7
Mineral fuels:	49.3	84.4	366.3	1.71	4.34	70.1	57.5
Crude oil	49.3	78.2	318.1	1.59	4.07	70.1	50.0
Heavy oil	—	6.3†	48.2†	—	7.65	—	7.6
Plant oil	2.9	(included in raw materials)		—	—	4.1	—
Others	0.2	1.9	9.0	9.0	4.74	0.3	1.4

Source: See Table II.

* Includes molasses.

† Heavy o l and petroleum products.

to nearly 50 per cent in 1972 while for certain commodities the percentages are even greater (see Table III).

When examining the export sector we must again recognize the importance of the growth of both the joint venture and the use of the package deal.

In the field of timber exports, due to the inability of our financial institutions to

provide medium-term loans, many exporters requiring equipment, such as tractors, etc., turn to the big trading firms, like Mitsui, for financing. The result is that when timber is to be exported, theoretically, marketing remains a matter of choice, but in practice loan involvement virtually forces companies to export to Japan.

With high prices and a large market reinforcing this direction of trade, Japanese, American, and other national joint venture companies generally market their logs in Japan with even the large American lumber companies such as Weyerhouse, Georgia Pacific, etc., following this trend. The net result of these factors is that at present we export some 85–87 per cent of our timber to Japan.

A similar situation exists for oil with 85 per cent of total exports marketed in Japan. While this represents only 12 per cent of total oil imports, the bulk of which come from the Middle East, the low sulphur content of Indonesian oil certainly increases its importance as it represents an important component of Japan's campaign to reduce domestic pollution and improve the quality of life.

Indonesian rubber exports to Japan appear to be on the decrease due possibly to a combination of Japan's earlier policy of supporting her synthetic rubber industries and the system of purchasing Malaysian and Indonesian rubber through agents in Singapore. However recent discussions on the future role of Japanese synthetic rubber, stemming largely from the oil crisis, have revived hopes of renewed activity in this sector including the development of initial Japanese interest in joint rubber estates in the coming years.

The export of mineral products, particularly nickel but also bauxite and iron, to Japan is definitely on the increase. Here again further developments can be expected given Japanese efforts to establish links such as the working arrangements negotiated with Freeport Sulphur in West Irian and nickel exploration in the Halmahera Islands.

In the overall trade situation Indonesia has a surplus in her dealings with Japan being in a similar position to Australia which exports more than she imports from Japan.

II. JAPANESE-BASED MULTINATIONAL CORPORATIONS—*SHŌSHA*

It is interesting to note that Japanese-based corporations are seldom referred to as multinational. The U.N. Committee on MNC, according to Prof. Sadli who is a member of the Club of Twenty, has in the past invited the Japanese Big Ten to the conference. While the American- and European-based corporations were represented, the Japanese failed to attend possibly because they do not consider themselves MNC.

In an earlier paper an attempt was made to prove that the Japanese Big Ten are more than qualified to be classified as multinational corporations [8]. These *shōsha*, including Mitsubishi, Mitsui, Marubeni, and others (see Table IV), operate all over the world (Latin America, Europe, Asia, Australia, the United States, etc.) generally establishing joint venutres, straight investment, branches, or liaison offices. They import, export, and produce as well as distribute manufactured products; they exploit petroleum (in joint ventures with other MNCs) as well as

TABLE IV
TRADE HANDLED BY THE BIG TEN IN 1972

(U.S.$ million)

Name of Company	Export		Import		Import and Export	
	Value	%	Value	%	Value	%
1. Mitsui	3,212	10.7	3,301	13.0	6,513	11.8
2. Mitsubishi	2,918	9.7	3,556	14.0	6,474	11.7
3. Marubeni	2,475	8.2	1,805	7.1	4,278	7.7
4. C. Itoh	1,858	6.2	2,177	8.6	4,035	7.3
5. Nisshō-Iwai	1,397	4.7	1,821	7.2	3,281	5.8
6. Sumitomo	1,560	5.2	1,210	4.8	2,770	5.0
7. Tōmen (Tōyō Menka)	1,011	3.4	815	3.2	1,826	3.3
8. Nichimen	721	2.4	874	3.4	1,595	2.9
9. Kanematsu Gōshō	560	1.9	985	3.9	1,545	2.8
10. Ataka	536	1.8	576	2.3	1,112	2.0
Total Big Ten	16,246	52.2	17,120	67.5	33,366	60.3
Others	13,740	45.8	8,243	32.5	21,983	39.7
Total Japanese import & export	29,986	100.0	25,363	100.0	55,349	100.0

Source: Mitsui & Co.

extractive industries or trade in these raw materials; they are big timber importers and distributors for the Japanese market. They also partly or wholly finance joint venture operations as well as provide local participants with required equity funds and loans. Many of the Big Ten are also important in leasing operations although this may not as yet be on the world-wide scale of some of their operations. If we take all their activities and investment interests into consideration, and assess them in terms of the criteria of the three schools of thought on MNCs, namely the structural school, performance yardstick school, and the behavioral characteristic school [3] [8], I am of the opinion that the Japanese Big Ten can be considered multinational corporations particularly in imports, exports, transport, petroleum, extractive industries, trading, manufacturing, leasing, and probably finance. It should however be noted that although they can be called MNCs on the basis of their operations, fields of activities, structure, and performance, in management and identity they remain strongly Japanese with a seniority system that ensures that all top positions are occupied by their nationals.

Trade between Japan and Indonesia and the Southeast Asian region generally is directed through these Japanese MNCs (*shōsha*). From Table IV we can see that the Big Ten handled U.S.$33,366 million or 60.3 per cent of the U.S.$55,349 million, total imports and exports of Japan for 1972. If we compare this component with the gross national product of countries in the region such as Indonesia (U.S.$10 billion), we can gain some idea of the magnitude of these trading firms. In trade in Japanese imports, consisting primarily of raw materials, the Big Ten control almost 68 per cent of these commodities giving them a powerful position not only in the supplying countries but also in their exercise of control over Japanese manufacturers. If we extrapolate the present trend of trade control by the

Big Ten over Indonesian imports and exports ($2,400 million in 1972, and estimated $3,411 million in 1973), one can imagine the magnitude of these Japanese-based multinational corporations as a force in world trade in general and in the Southeast Asian countries in particular.

This comparison gives an idea of the "bigness" of the Japanese Big Ten compared even to the total trade of Indonesia and other Southeast Asian countries. Consequently Indonesian exporters face giants who, supported by a world organization, financial facilities, and expertise in the international market can easily occupy a dominant role in the running of joint operations or other arrangements. Japanese investment is generally a combination with one of the Big Ten almost inevitably a partner in joint venture. The reason for this is that the Big Ten are in fact the initiators of projects and as such they always secure a share of the venture.

Given their industrial groupings (Fuyō Group, Mitsui Group, Mitsubishi Group, etc.) this combination consists of a trading firm and manufacturers generally from the same industrial group while local partners strong in distribution are preferred. Due to the Indonesian investment law, they are generally large projects with invested capital greater than $1 million. Even when individual projects are considered medium or small, the total investment of the group (one must see it from the Big Ten point of view) is generally big investment. Taking into account loans and other financial arrangements, each of the Big Ten invested more than $100 million while some of them, before the oil crisis, planned to invest around $1 billion in Indonesia alone.

Compared to these giants, Indonesian business industries, with the exception of Pertamina, P. N. Timah, and P. T. Aneka Tambang (state-owned enterprises), are medium- or small-sized firms. The result in the world market and international business is that their bargaining position is generally very weak.

III. BEHAVIORAL CHARACTERISTICS OF THE MANAGERS

In a discussion of managerial behavior it is important to recognize that the inflow of foreign investment has created a new dimension in the Indonesian economy and within this dimension the Japanese, because of their operational methods and behavioral characteristics, seem to occupy a position distinct from their American and European counterparts.

These developments appear to make both Indonesia and Japan ill prepared to meet the new challenges. Indonesia is faced with a highly competitive situation. However, she has not as yet suitably equipped herself to deal with these large organizations while Japan has also shown herself to lack the experience necessary to operate suitably in the new environment.

To understand fully the workings of the Big Ten or indeed any corporation we must make an examination of the managerial manpower of these groups. Particularly in a situation such as we are in now the terms man and organization must be viewed as essentially synonymous with the crucial characteristics of the organization being little more than an extension of top level personalities.

The management of Japanese corporations particularly the MNCs is generally

in the hands of professionals. While these *shōsha*s have become independent corporations, they are often still grouped around financial institutions, although generally they belong to certain industrial or banking groups. Mitsubishi's major shareholder is Mitsubishi Bank. Mitsui has two major banks as shareholders, Mitsui Bank and Fuji Bank. Marubeni has three banks as major shareholders, Fuji Bank, Sumitomo Bank, and Bank of Kobe. C. Itoh's major bank shareholders are Sumitomo Bank, Bank of Tokyo, and Daiichi Kangyō Bank. Nisshō Iwai's major shareholders are Sanwa Bank, Daiichi Kangyō Bank, and Bank of Tokyo. Almost all of these banks have offices in Indonesia or have become partners in newly established investment banks.

A survey made by Joshinamatsu Admini shows that of the 1,500 executives surveyed among 250 large companies, only 6 per cent achieved top positions because of ownership in the companies, whereas 94 per cent are professional managers [2].[1] In 1900 the percentages were 80/20 and in 1952 50/50. This indicates a continuing development of professional management of operations, a trend which can also be seen in places such as Singapore and Hong Kong where this is made possible by the gradual development of the capital and money markets (including a developed stock exchange).

Another characteristic is that 90 per cent of the 1,500 executives surveyed are university graduates (in 1900 only 5 per cent, and in 1928 two-thirds were graduates), 60 per cent of whom come from well-known universities such as Tokyo (26.5 per cent), Kyoto (7.3 per cent), and Keiō (7.9 per cent).

Of the university graduates in managerial positions, 10 per cent are from law faculties, 13 per cent from economics faculties, 22 per cent from commerce faculties, and 23 per cent from engineering. This indicates that professional management prefers to draw its resources from well-established universities. Graduates from the University of Singapore are now much in demand by the developing business enterprises and the same can be said of graduates from the University of the Philippines in that country. In Indonesia, graduates from the Faculty of Economics of the University of Indonesia are highly favored for managerial positions (including government positions), while agro-economists come from the IPB (Institut Pertanian Bogor) and engineers from ITB (Institut Teknik Bandung).

Another important characteristic is the existence of three generations in the managerial class of Japan. According to Adams the working of managerial manpower in Japan can be divided into three groups, probably with subgroupings within these three groups: (1) Managers born before the end of the Meiji era, 1912. They constitute 5 per cent of the total managerial manpower. (2) During the reign of Emperor Taishō, between 1912 and 1926, 15 per cent were born. (3) The remaining 80 per cent are persons born during the reign of the present Emperor Shōwa. It is interesting to note that the Taishō men were formerly in the armed forces where they served as officers in the Japanese army.

According to this survey, it was shown that at least 62 per cent of the section

[1] Quoted in M. Y. Yoshino, *Japan's Managerial System: Tradition and Innovation* (Cambridge, Mass.: MIT Press, 1968), p. 98.

chiefs had military experience and 40 per cent of them had been officers in the armed forces. Taking into account the importance of the *ringisho* ("decision-making process by consensus") system, these groups play a key role in the process of decision-making. In general the two important divisions are the planning research division and the development division. The planning section prepares all that is needed before the development division designs the operating program.

According to Adams, the impact on Japanese business life is important. Thus in terms of total managerial manpower the Shōwa group dominated with 80 per cent, followed by the Taishō with 15 per cent and the Meiji group with 5 per cent (persons above sixty-five). However in terms of managerial positions in the business-industrial-financial world, it appears that the Meiji group is still at the top of many big corporations. A survey of 1,139 company presidents revealed that 84 per cent are from the Meiji group, 14.5 per cent from the Taishō group, and 1.5 per cent from the Shōwa group. These percentages reflect the still accepted seniority system in the Japanese managerial system. This may have changed slightly in the 1970s. I suspect that in the financial sector the percentage has changed more in favor of the Taishō group. In other words this group will gradually move up to top positions. If we were to survey the general managers heading the various branches or liaison offices of the Big Ten in Southeast Asia, we would probably find that these people belong to the Taishō group, while the Meiji group men are still company presidents and chairmen of the Tokyo headquarters. The Taishō people are those who in the coming five to ten years will be the most important group in the process of decision-making in Japanese investments and trade—and these people are now all over Southeast Asia. Adams, it seems, is of the following opinion: The Taishō group, being a trained and disciplined body, concentrated all their energy and pride into the building of the Japanese economy, with the same zeal and devotion as they had in the war. Their commitment and devotion to win another war—the economic war—has contributed to the Japanese miracle. Their loyalty is first to the national objective, then the company they serve, then the group to which they belong (University of Tokyo, etc.), and finally to the family. In conversation they will always say "I work for Mitsui, Mitsubishi, etc.," but seldom say "I am an engineer or an economist." It is the group to which they belong which is mentioned first with little attention to the individual. The team or group must bear the responsibility not the individual and it is in terms of this group effort through which success and failure are assessed. Loyalty to the group is all pervading with the consequence that when a joint venture is formed encompassing a foreign element there is a tendency for loyalty to be directed towards the headquarters with continued interdependence binding the venture in a subsidiary status.

I say tendency because in Singapore one shipbuilding company is experimenting with Japanese and Singaporean management integration.

Compared to a system of professional managers with an emphasis or philosophy of team action, where the team is not a group of individuals but a single integrated entity committed to the Japanese cause, the Indonesian management system appears to lack such cohesiveness.

In business operations we generally find the Indonesian owner-manager facing

a more organized and skilful team of professional managers from Japan with obvious consequences for any transactions, agreements, or discussions.

IV. MARKET

Indonesia is for the Japanese MNCs a market for their finished products (imported or domestically produced), a supplier of increasingly needed raw materials (oil, timber, mining products, etc.—see Table V), supplier of fisheries (shrimp, fish, seaweed, etc.), and an expanding area for overseas joint investment.

TABLE V
JAPAN'S IMPORT DEPENDENCE FOR RAW MATERIAL

Raw Material	Estimated Import Dependence: 1975 (%)
Copper	82
Lead	46
Zinc	57
Aluminum (bauxite & aluminum)	100
Nickel	100
Iron ore	91
Coking coal	92
Petroleum	92.9
Natural gas	73.6
Uranium	100.0

Source: *Strategic Survey 1971* (London: Institute for Strategic Survey, 1972), p. 60.

In these fields the Big Ten are very active in promoting many types of manufacturing, forestry, exploration-exploitation of mineral products, finance, shipping, etc. All products from these operations are generally handled through the big trading companies.

Japanese manufacturers, through the Big Ten, have established factories in textiles, nail wire, galvanized iron sheets, paints, polyester, batteries, etc. These domestically manufactured products supplied to the Indonesian market include automobiles (Toyota, Datsun, Mazda), motor cycles (Honda, Yamaha, etc.), radios (Sony, Hitachi), and television (Sony, Sharp, Hitachi), etc. Thus, Indonesia is not only developing into a major supplier of certain raw materials but is also becoming an expanding market for domestically produced Japanese products and a market for their financial institutions.

V. INVESTMENT

A. *Motives for Investment*

In order to assess the real motives for investment in Indonesia one must interview the top personnel in the Japanese trading companies, manufacturers, and top MITI people. Our assessment is based on observation and experience in dealing with almost all of the Big Ten operating in Indonesia.

The primary motives are the Japanese pollution problem and the increases in wage and salary levels both of which have forced many industries to invest in Indonesia. While these factors are possibly exaggerated it seems clear that their influence and those of policies to change the map of Japan (Tanaka Plan) and the changing emphasis of growth away from exports and private equity investment as prime economic movers towards welfare considerations have fostered a trend towards highly sophisticated technology and provided an impetus for some manufacturers to go to places such as Indonesia.

The prevailing investment climate in Indonesia provides the Japanese with ample opportunities which may not be present in the years to come. They have also found that they can export part of their manufacturing to Indonesia thereby: (i) improving their competitive position in the market with tariff walls against imported manufactured products, (ii) take advantage of a growing domestic market meaning both an expansion of their own market and an increase in overseas earnings, (iii) enable them to expand both their raw material and intermediate products market, (iv) secure an early position in the market before other firms enter (bandwagon effect), and (v) utilize their existing knowledge of the products, technology, markets, etc.

A further factor may be that some have perceived that the bargaining position of the Indonesian partner is rather weak when compared to counterparts in Singapore, Malaysia, and the Philippines both because of the nonexistence of a capital and money market and because their position in the market for certain products is well known all over the world.

All of these factors are further based on the calculations that at present there is an economic and political stability despite recent student movements and activity by other political groups which resulted in anti-Japanese demonstrations in Indonesia.

B. *Pattern of Investment*

Thomas W. Allen [4] concludes that the pattern of Japanese investment can be summarized as follows:

(1) Joint investment is a more acceptable type of investment.

(2) The companies emphasize loan financing more than other MNCs.

(3) They are more in single-product and simple processing plants.

(4) Package nature of investment incorporating finance, technology, market, etc.

Japanese investments in Indonesia are generally joint ventures, and are actively promoted by the Japanese-based MNCs. From the MNC point of view they will benefit from:

(1) purchase of the factory or equipment from their affiliates, subsidiaries, or business relations;

(2) shipping, insuring, and financing these deal through their affiliates;

(3) placement of experts (managerial manpower), possibly those persons who are on the retirement list;

(4) exporting some of the products back to Japan or marketing them domestically; and, when the project is mining or forestry, shipping these products through their own channels back to Japan;

(5) importing the finished products back to Indonesia; and
(6) all of these activities add to the possibility of business for Japanese restaurants, hotels, and tourist offices located in Indonesia.

C. *Types of Overseas Investment*

Japanese investment overseas is shown in Table VI, for Japanese investment in Indonesia, see Table VII. From overseas investment of $2,682.9 million in 1969, 22.5 per cent (U.S.$604.0 million) has been invested in Asia. Of this two major sectors are preferred—manufacturing and resources.

TABLE VI
JAPAN'S FOREIGN INVESTMENT BY SECTOR AND AREA, 1951–69
(U.S.$ million)

Sector	North America	Latin America	Asia	Europe	Middle East	Africa	Oceania	Total	Per Cent
Manufacturing	160.2	248.9	232.7	15.4	2.8	20.5	41.1	721.6	27.0
Resources[a]	129.1	95.8	265.8	1.0	302.0	57.2	107.6	958.5	35.6
Commerce	266.3	14.0	11.3	23.0	0.5	0.1	7.5	322.7	12.1
Others[b]	164.8	153.8	94.2	263.6	1.0	0.8	1.9	680.1	25.3
Total	720.4	512.5	604.0	303.0	306.3	78.6	158.1	2,682.9	100.0
Per cent	26.9	19.1	22.5	11.3	11.4	2.9	5.9	100.0	

Sources: Bank of Japan and Ministry of International Trade and Industry. The statistics relate to cases of foreign investment validated by the Bank of Japan.
[a] Includes agriculture, forestry, fisheries, and mining; mining constitutes over 90 per cent of this total.
[b] Includes construction, finance, insurance, and foreign branches. The large figure for Europe is because information on a sectoral bas's is not available. It is thought to include finance, hotels, and distribution outlets.

TABLE VII
JAPANESE INVESTMENT IN INDONESIA, JUNE 1967–JUNE 1973

Sector	Value (U.S.$ 1,000)
Agriculture, forestry, and fishing	51,443
Mining and quarrying	75,108
Manufacturing	211,901
Construction	3,670
Hotels and trade	31,295
Transport/commuications	12,150
Real estate and business service	20,320
Total	405,887

Source: Bank Indones'a, *Monthly Bulletin*, July 1973.

A JETRO publication entitled *Economic Cooperation of Japan of 1971* says that total investment $3,596 million is divided as follows:

(1) Direct overseas operations (including acquisition of real estate) $ 375 million (10.4 per cent)

(2)	Loan	$1,854 million (51.6 per cent)
(3)	Acquisition of shares	$1,334 million (37.1 per cent)
(4)	Overseas branches	$ 33 million (0.9 per cent)

If total investment of $3,596 million is divided by industry the following specifications result:

1.	Manufacturing	$ 659 million (18.3 per cent)
2.	Commerce	$ 370 million (10.3 per cent)
3.	Banking and insurance	$ 322 million (9.0 per cent)
4.	Mining	$1,125 million (31.3 per cent)
5.	Textile industry	$ 190 million (5.3 per cent)
6.	Wood and pulp industry	$ 212 million (5.9 per cent)
7.	Iron and nonferrous metal industries	$ 138 million (3.8 per cent)
8.	Transport equipment industry	$ 103 million (2.9 per cent)
9.	Electric machinery industry	$ 71 million (2.0 per cent)
10.	Machinery industry	$ 67 million (1.9 per cent)
11.	Foodstuff industry	$ 61 million (1.7 per cent)
12.	Chemical industry	$ 60 million (1.7 per cent)
13.	Other manufacturing industries	$ 61 million (1.7 per cent)
14.	Agriculture and forestry	$ 58 million (1.6 per cent)
15.	Fisheries and marine products industry	$ 27 million (0.8 per cent)
16.	Building industry	$ 38 million (1.1 per cent)
17.	Overseas branches	$ 33 million (0.9 per cent)

The amount invested abroad in 1972 was $6.26 billion of which around 20.4 per cent ($1.27 billion) was invested in Asia. The investment in Asia, according to Noritake Kobayashi, was $632 million equity investment, $600 million loans, $26 million for establishing branches and liaison offices, and miscellaneous $15 million [7].

D. *Investment Orientation*

Based on the objectives of Japanese investors investment may be categorized as follows: (1) resource-oriented, (2) export-oriented, (3) domestically oriented, (4) technologically oriented, (5) service-oriented, and (6) labor-intensive.

Because of the Japanese economic structure as well as the prevailing attitude of middle and top management in trading and manufacturing companies, investment is primarily resource-oriented.

In order to diversify their supply of raw materials, Japan has gone all over the world to where supplies are available. Although the pattern of investment may differ from one country to another (such as in Australia where it is determined on a long-term contract basis; in other places on a joint venture basis), the objective is similar, namely to ensure a regular supply of raw materials at most advantageous terms. To this end coordinated agencies are set up in Japan, thereby making it difficult to play off one group against the other. However, depending upon bargaining position, there may be minor differences in the signed agreements.

Japanese manufactures have recently become more export-oriented in the sense of transferring part of their industries to cheaper places in order to supply the

domestic market and in some cases to export the finished products to Japan. Approximately 40.1 per cent of Japanese direct investment in Indonesia is in textiles, 13.1 per cent in forestry, 14.4 per cent in fishing, and the remaining less than 10 per cent divided among beverages, metal work, and others. The big textile giants such as Teijin and Toray are now present in a big way in Indonesia. Given existing capacity in textile production, there are often excess stocks of textiles which cannot be marketed. This may represent temporary overproduction, excessive concentration in one particular type of textiles, or postponement of consumer purchases of textiles due to the increase in food prices. However, those associated with the textile industry now believe that a substantial amount can now be exported. Although present textile exports to Japan are not finished products, this will occur in the future. The Japanese textile giants in Indonesia are planning to establish integrated textile mills beginning from the production of petrochemical raw materials, through polyester. Other areas such as the motor industry and generators are still at the assembly level and have not yet gone into manufacturing spare parts.

With the development of the manufacturing sector and active investment by Japanese firms, service-oriented companies such as banks and consultant services are now operating in Indonesia. Practically all big Japanese banks are represented in Indonesia whether as branches (Bank of Tokyo), or in joint ventures with state banks or the private sector (Fuji Bank, Sumitomo Bank, Long Term Development Bank, Sanwa Bank, Mitsui Bank, Mitsubishi Bank, Nomura Securities, Nikkō Securities, Daiichi Kangyō Bank), or as liaison offices (all of the banks mentioned above have supplemented their joint ventures with the establishment of liaison offices).

Technologically oriented and labor-intensive firms have shown some interest, however, I believe their activities are at this time still in the survey stage.

E. *Form of Investment*

1. *Direct investment*

As mentioned above investment is generally in the form of joint ventures as encouraged by MITI. The prevalence of this system appears to largely relate to certain facilities extended by MITI to those companies taking this form although some of the big trading companies are seemingly also in favor of the joint venture system.

Only a few big projects such as the Toray integrated textile plant have utilized straight investment. However, even these companies are looking for local partners. A major problem continues to be that such undertakings require such a huge amount of investment that local partners are not yet in a position to provide the required capital.

Joint venture agreements between Indonesian and Japanese partners generally favor the latter who are presently asking for loyalties, sometimes management and technical fees, a majority in management, and the purchase of raw materials from Japan (despite a clause which theoretically allows purchases from other countries).

At the management level, particularly all members of the executive board are Japanese. When the Indonesian partner insists on representation Indonesians are generally given the position of director of general affairs or personnel. The result of this latter concession is that in the event of labor or tax problems, the Indonesian representative is held responsible, while all decisions on pricing, raw materials, etc. are decided by the Japanese partners.

In general Japanese investors prefer to maintain majority holdings particularly in the early years of operation,[2] and within this structure a senior-junior partner relationship often emerges. Given the Japanese philosophy and behavior patterns towards their juniors, i.e., paternalism, we find that when loans are required they are often readily extended as part of the interdependence between the two groups; however when Indonesians attempt to adopt the role of the senior partner real problems arise.

TABLE VIII
MULTINATIONAL CORPORATIONS' INVESTMENT IN INDONESIA: 1967–73

Multinational Corporation	Rate of Share-holding (%)	Amount to Be Invested (U.S. $ 1,000)	Number of Projects	Nationality of MNC	Sector
Mitsui & Co.	80	90,806	15	Japan	textile, forestry, beverages, plastic, tire
Marubeni Corp.	60	76,721	10	Japan	iron sheet, textile, construction
Toray	85	66,515	5	Japan	textile, construction
Goodyear	100	23,460	2	U.S.A.	tire, gum estate
Nisshō Iwai	70	22,300	5	Japan	textile, metal products, fishery
Mitsubishi Corp.	80	15,864	6	Japan	fishery, forestry, air transport
Ataka & Co.	75	13,000	7	Japan	forestry, metal products, textile
C. Itoh & Co.	80	11,818	9	Japan	textile, real estate, metal products
Tōyō Menka Kaisha	75	10,974	6	Japan	texile, fishery, forestry
Teijin	85	9,432	1	Japan	textile
Philips Gloelampen	66	6,849	1	Netherlands	textile
Sumitomo Shōji Kaisha	60	5,600	5	Japan	agriculture, machinery, forestry
Union Carbide	100	2,700	1	U.S.A	battery
Farbwerke Hoescht	80	1,625	1	West Germany	pharmacy
Unilever	100	1,500	1	Netherlands	soap industry, cosmetics, pharmacy
Bayer	75	245	1	West Germany	pharmacy

Source: Coordination Board of Capital Investment.

[2] See Table VIII for the shareholding percentages by the Japanese-based MNCs.

While all joint venture agreements contain a clause stating that majority shareholding should gradually come into Indonesian hands, in practice the Japanese include a number of requirements such as transferrable shares valuation, capital arrangements, Japanese control of technical know-how, which effectively delay any such transfer.

In all fairness it must be admitted that certain positive advantages do emerge from these joint ventures. Both the quality and range of products available to the general public has improved and the Indonesian partner will inevitably learn how to cope with associates such as the Japanese and how to overcome such problems as home-country and company-centered loyalty.

2. *Indirect investment*

Through the package deal principle, many Indonesian partners and domestic investors have benefited from the Japanese Big Ten who have given substantial loans (generally medium term). Such medium-term loans channelled through the Big Ten (who may provide collateral to the Japanese banks) have been made possible because of both the package deal principle and the Indonesian banking system. The banks have increased their foreign borrowing capacity, but because of the foreign borrowing ceiling they are not in a position to give medium-term loans to the Indonesian partner, thereby forcing them into the hands of their Japanese counterparts. However, given the present limitation on such loans by MITI these may not be as abundant as before the oil crisis.

It is true that some of the loans provided to the state enterprise such as Pertamina and P. N. Aneka Tambang have been linked with the raw materials they are producing. However even in such cases prices are not fixed in advance but are rather based on prevailing market conditions.[3]

This method is not only practiced towards Indonesia but is also the case with Australian- and American-based companies, such as Freeport Sulphur, with whom the Japanese have made a finance agreement in return for a portion of output.

Many subcontracts and contracts which are operating in Indonesia are assisted by these big trading companies not only in terms of advances but also in the supply of equipment and machinery.

3. *Amount of aid and direct investment*

The level of aid and direct investment according to the International Development Center of Japan will be around $12.4 billion by 1981. Of this direct investment is estimated to be $4.3 billion with $1.7 billion as export credit [6] (see Table IX). This represents a substantial increase when compared with the present level of $405.9 million (Table VII); however the amount of investment is greater if consideration is given to the direct loans channelled through the Japanese Big Ten to their various joint ventures.

[3] For example, oil prices were increased recently however Indonesia provided proof of its belief that relations should be based on mutual benefit rather than exploitation by setting the new price below those adopted by the Middle East countries.

TABLE IX

JAPAN'S ECONOMIC AID, 1961 AND 1970, AND PROJECTIONS FOR 1981 (U.S.$ million)

	1961	1970	1972/73	1981
Government aid	106.9	458.0	n.a.	4,391.0
Bilateral	95.5	371.5	—	3,222.0
Grant	67.8	121.1	n.a.	2,326.0
Loan	27.7	250.3	—	896.0
Multilateral	11.4	86.5	207.5*	1,169.0
Other government aid	—	200.0	n.a.	1,829.0
Private total	274.5	672.3	n.a.	6,220.0
Direct investment	98.4	265.0	—	4,292.0
Export credit	180.7	386.9	—	1,742.0
Total	381.4	1,842.0	—	12,440.0

Sources: For 1961 and 1970, Ministry of International Trade and Industry, *Keizai kyōryoku no genjō to mondaiten: 1971* [Present status of economic cooperation and its problems: 1971] (Tokyo, 1972); for 1980, Japan Economic Research Center, "Japan's Economy in the World, 1968."

* Via IGGI.

VI. POLICIES AND PRACTICES

While it is the policy of the Indonesian government to prohibit foreign companies from operating in the distribution sector, it nevertheless appears clear that the various offices of the Big Ten are in a position to push the products (through advertisement, neon signs, radio, television, cinemas) into the hands of the dealers who ultimately distribute them to the consumer.

If we examine the offices of the Big Ten, supposedly only representatives of the company, we find they resemble full-fledged branch offices staffed with a number of expatriate personnel and organized along lines which reflect the Japanese system of business operation. They generally operate on a team work basis with the decision-making based on the *ringisho* ("consensus") system. In practice, the Japanese system appears to work well and it now seems that these "representative" offices are becoming generating groups for the realization of projects. When a U.S. multinational firm operates here, it may have one or two projects. However the big Japanese trading firms may be involved in more than twenty operations. Mitsui for example has sixteen projects already in operation, over twelve projects of which form A has been approved and more than ten projects under study. With their intention of investing a further $1 billion in the years to come, the number of projects this liaison office will be handling will be large. Recently, however these Japanese-based corporations have become more cautious possibly due to reconsideration of what may now be felt a previously too aggressive approach. Let us now briefly discuss the various practices which may be of interest to us. It is not the intention of the author to concentrate on the negative aspects of such practices but rather to evaluate these in an attempt to prevent the possibility of increased friction which may jeopardize mutually beneficial co-operation in the future.

It is generally known that the financial capability of the Indonesian partner to generate capital is limited. One of the main reasons for this is that the majority of Indonesian enterprises are basically run by families or small groups of persons. Along with this still "developing organizational structure," these companies cannot float capital in the market because of their internal structure and the present non-existence of such a market. One of the main sources of capital is the state banks, however such loans are generally short term or when one does manage to obtain investment credit, it is still at higher interest rates. This provides a sharp contrast to foreign companies who can float capital abroad obtaining what are permanent funds. Similarly, when they issue stocks, not only is the interest generally lower, but the "loan" is long term.

With this crucial limitation, many Indonesian firms prefer low equity capital and accept a higher ratio in loans. For Japanese companies it appears that the acceptable ratio between equity and loans is in the neighborhood of 16.1 per cent with the balance made up by borrowing (may be some 10 per cent stock issues; here tax problems are involved). This ratio of more debt than equity capital is based on a philosophy of interdependence of corporations and represents a form of participation. This tendency is supported by the knowledge that if, compared to capacity, a bank overloans then the Bank of Japan will actively support the operations. With the existence of a rather substantial surplus in Japan, it seems that many of the joint venture were given rather substantial loans, sometimes to finance equity participation and/or operating capital under rather acceptable international rates of interest, at times being even lower than the current international rate of interest. However this low interest rate may have been compensated for in the amount paid for equipment, machinery, and perhaps in the price of raw material, that is as a part of the so-called package deal.

In other words the Japanese-based MNCs, through their access to the Japanese financial market and other international financial institutions, have provided the joint venture and Indonesian partners with medium-term loans and in many cases have included operating capital. Thus the medium-term loan, instead of being channelled directly from the Japanese banks, is channelled through the intermediaries of the big Japanese MNCs. Undoubtedly these firms have given collateral and for this function, a type of remuneration must be paid, through the package deal. The Indonesian partner is forced to borrow medium-term loans from these Japanese MNCs because the state banks and other private banks, which have increased their borrowing capacity in foreign currency, are basically also limited by the Central Bank in the amount they can borrow. In fact these financial institutions, if allowed to extend medium-term loans to the Indonesian partner, will be in a position to float medium-term credit in the international market. However, it seems that such loans have been severely limited and are cumbersome to administer and therefore the Indonesian partner is more or less forced to borrow money from the Japanese MNCs to cover their equity and at times also to provide operating capital.

With capital and other financing generally provided by the Japanese partner,

the logical consequence would appear to be that the provider of finance has management in its hands. This management dominance may be further supported by the employment of a Japanese technical staff which could prove equally as important as a means of effective organizational control. The consequence, whether positive or negative, of having management control vested in the foreign partner will depend on many factors including: the philosophy of the company, the individuals in charge of implementation, the Indonesian partner, and the position of the products.

Some of the negative consequences could be: if the company as a production unit operates at a loss for a number of years, so that the Indonesian partner at one stage has to be persuaded to increase capital, and if the Indonesian partner is not in a position to provide additional capital, many things could happen. The capital ratio could develop to the disadvantage of the Indonesian partner, or the Indonesian partners may sell their interest to their foreign partner (formally if allowed or informally). In some instances the enterprise may in fact be running profitably, only the profit center has been transferred elsewhere, possibly to the head office (raw material supply) or to the distribution level. These practices could result in a group of increasingly embittered national businessmen which may affect other persons such as employees and national managers.

Some of the positive aspects, when run by an honest foreign partner, include: (i) development of team work which may benefit the labor force, manpower in Indonesia, the consumer, and the environment where the factory is established, (ii) a developing export market for Indonesian produced finished products which may then be re-exported to other places including the Japanese market.

VII. INSTITUTIONAL SETTING

The government and business enterprises in Japan are operating as partners in progress and in fact could be considered as Japan Incorporated [9] [1]. The sense of group togetherness is also applied in collaboration. Compared to other countries the Japanese government has very little direct ownership participation in Japanese big business. However through "... a complex apparatus of interaction, involving the several government ministries and such organizations as the Bank of Japan on the one hand, and formal groupings of business by industry into trade associations on the other, the bureaucracy and business leadership maintain a pattern of interaction that is a continual one" [1, p. 72].

Former Prime Minister Ikeda on one occasion even stated that "... the government is the captain and the zaikai the compass of the ship" [9, p. 34].

In other words there is a definite and close relationship between organized business, party leadership, and top level administrative bureaucracy. The collaboration between government, big business, and bureaucracy has developed through the years with a common national economic objective, supported by a highly disciplined and trained managerial and technical group of the Taishō generation under the supervision of the Meiji generation.

A. *Japanese-Based Multinational Corporations*

In the above discussion we have seen the important role the Japanese-based MNCs are playing in the Indonesian economy. Trade relations between Indonesia and Japan are handled mainly by the Big Ten. They generally initiate investment and aid to Indonesia is frequently executed through them.

In other words the Japanese MNCs have played and will continue to play an important rôle in the relationship between Indonesia and Japan and also in the direction of Indonesia's economic development. Let us now examine the possible impact of these MNCs. However, before doing so let us first look at the business structure and institutional setting of Indonesia.

B. *Countervailing Power*

In discussing the possible impact of domination of the country's economy by these Japanese corporations it is also important to ask what has the nation attempted to do to create an effective countervailing power against these giants. It is certainly important to understand and assess their financial, market, and technological power but it is no less important to assess each country's strengths.

Indonesia certainly possesses leverage vis-à-vis the Japanese from both the economic and political point of view. The supply of raw materials and other extractive products could be used in a package deal approach coupled with a reminder of the fact that almost 90 per cent of Japanese logistics has to pass through Indonesian waters. However this leverage will be ineffective if Indonesia cannot foster the growth of organizations (economically or politically) which could cooperate as an "Indonesia Incorporated" uniting government, bureaucracy, technocrats, and business units (large and more efficient units must be developed) in a working mechanism capable of facing the Japanese-based MNCs as an equal. Without developing the country's own institutions and mechanisms for bargaining we will not be in a position to discuss agreements and joint ventures on an equal basis. If the country cannot develop such an economic and political countervailing power in her economic system she has only herself to blame.

Although we may be able to create countervailing power in the country there are still problem areas which could be potential sources of conflict. Fayerweather has stated that there are three main groups of problems each with its own unique characteristics, namely bias, conflict with specific nationalistic attitudes, and national struggle issues [5, p. 345].

1. *Bias*

It is a known fact that nationalist prefer to consider direct investors as outsiders, some of them even going so far as to call them "new colonialists," "economic animals," "exploiters," and "juggernauts." The more pragmatic group may consider these direct investors as partners in progress because they contribute to the country's development. This attitude is a reflection of "narrow nationalism" while the other group belongs to those of "development nationalism" (as cited by Soedjatmoko).

2. *Conflict with specific nationalistic attitudes*

(1) Control: When the country feels insecure it may consider the dominant position of the MNC as a threat to control of the economy.

(2) National wealth: There are those who believe that MNCs may in fact drain the wealth of the country rather than contribute capital and other financial input.

(3) Mutual protection: An attitude to protect the nationals from the MNCs in the event that MNCs take unfair advantage of the nationals.

(4) Culture: MNCs and their mode of operation may exercise a negative influence on traditional culture.

(5) Pride: National pride may be hurt if the MNC, with superiority in organization, management, and capability, is considered to ridicule the nationals and locals.

3. *National struggle issues*

The respective roles played by MNCs and nationals always appear to differ. Although the MNCs may have contributed to development the relationship is still considered as "them" versus "us."

Thus in evaluating the possible impact of these Japanese-based MNCs we must take the bias, nationalistic and national struggle issues into consideration. It is our intention to discuss a few selected areas in which the impact of the Japanese MNCs appear most apparent.

C. *Investment*

As mentioned earlier, aid, direct investment, and trade to Indonesia and possibly other ASEAN countries, are mainly handled by the Japanese-based MNCs. Japanese investment in Indonesia has been mainly in manufacturing. Within this sector it has been particularly dominant in textiles, automobiles, communication and entertainment products (television and radios), and other household goods such as air conditioners and refrigerators. Due to this concentration domestic manufacturers feel that they have been unable to compete. Therefore, wherever possible, many have become partners in the joint operations of Sanyō, Hitachi, Toyota, Teijin, Toray, etc. In this role, they are generally considered minor partners, particularly in the production of finished products even though they may be much more involved in the distribution of these products. However, despite this latter concession, the general feeling is that many of them are junior partners and because of this, coupled with the problem of foreign partners' loyalty to headquarters, they believe the joint venture will remain no more than a type of subsidiary to the Japanese-based MNCs. Uneasiness appears inevitable unless the joint ventures can develop their own products and their own domestic brand, thereby establishing the joint venture as a completely independent unit eventually only receiving "technical know-how support" rather than maintaining a subsidiary status. Besides this change in attitude and objectives the Japanese MNC should also shift their attention to other areas such as the extractive industries where they would not only be exploiting or exploring the country's mineral wealth but would also be getting

MITI's encouragement for the processing of raw materials into finished goods. This would make their contribution to development apparent to the host country. It is, for instance, not sufficient that they take out timber and export it to Japan. What is much more important is that they develop industries such as pulp and paper, plywood, and furniture industries together with the locals for export purposes. This may also apply to raw materials. At this time it is known that many Japanese MNCs are reluctant to invest capital for the exploration of unknown areas in Indonesia in order to find minerals. They are seemingly not yet prepared to spend their risk capital.

1. *Investment and consumption pattern*

The establishment of so many manufacturers has had an impact on the Indonesian consumption pattern. It is a fact that consumers are now given a better assortment of products, whether these be textiles or consumer durable goods. Radio sets, motor cycles, T.V. sets (battery), etc. are now penetrating the villages and are becoming common goods in most of the big cities. However, it has also created demands which are not as yet within the purchasing power of many consumers. A further problem is that the financial institutions which should be in a position to take the burden of finance from the manufacturers, are not yet in a position to allow hire purchase. However, is this the right policy, taking into account the composition of the average consumer, whose largest expenditure is still food? The creation of wants and desires which cannot be satisfied can easily lead to anxiety and feelings of frustration.

2. *Investment and domestic industries*

One of the problems which may create friction domestically is the impact of joint ventures in the manufacturing industries on domestic investors and other smaller and medium-sized national industries. The introduction of Coca-Cola (brought in by the Mitsui group), and other well-known brands in the soft drinks industry resulted in the closing down of national beverage industries. Even though some firms have gone into other types of drinks, they still feel the impact of these joint ventures. Severe competition was also felt by the national textile industries. Some of these are trying to survive by developing those products which are not produced by the big textile joint ventures, others have had to slow down production. However, many firms could not survive and have therefore had to close down. With the establishment of the joint venture and investment by domestic investors, the quality of Indonesian textiles has improved tremendously. To date the government has been unable to find a solution to this problem even though some measures have been taken, such as closing those industries for joint ventures which can be handled by locals and the extention of credit facilities on a soft loan basis to the small and medium-size industries.

CONCLUSION

In this paper we have tried to describe the position of the Japanese *shōsha*s, the

Big Ten. Normally these enterprises do not consider themselves member to the MNC family. However, in another paper, I have tried to develop the thesis that the Japanese Big Ten can be classified as Japanese-based MNCs and there appears to be substantial evidence to support my position.

The Japanese-based MNCs handled the majority of trade between Indonesia (and Southeast Asian countries) and Japan; they are the initiators and catalysts of direct investment from Japan; they also help implement the foreign aid program to Indonesia.

It is therefore crucial that both government and private investors understand the workings of the Big Ten. In the relationship between the Big Ten and the host countries, many negative aspects could be cited, however, it is also important not to forget that many real benefits can result from their presence if the host country equips itself suitably for the situation.

The negative aspects can be reduced if Indonesia and the other ASEAN countries gradually increase their bargaining positions and create well-developed national institutions (financial, trading, etc.) to serve as an effective countervailing power. Instead of competing for foreign investments, I believe it would be a good thing if the Asian countries come together and in fact adopted a common strategy in facing the MNCs who, in the years to come, will definitely dominate the situation. Apart from the host countries developing countervailing power, there is also a need for a change in the attitudes of foreign investors. In coming to a country such as Indonesia, or to other Southeast Asian countries, the Japanese should forget the word "interdependence" in the sense of junior and senior positions. The managers in Japan should be trained and re-educated along these lines so as to avoid a clash between the host country and the foreign investor. It is not, I believe, too difficult to initiate a kind of executive development program, run not by Harvard, but by Southeast Asian countries together with the Japanese, in order to find a pattern of management applicable to the Southeast Asian region.

A code of conduct should be established in the region. The Keidanren code would possibly be suitable as a starting point to assess how this has been implemented by the executors of the Big Ten. To implement such a code and provide sanctions in the event of non-conformance, it is important that in the ASEAN region we establish temporarily a type of forum to enable us to conduct frank dialogue in seeking a more permanent form which could be developed into a "problem or conflict resolving agency."

REFERENCES

1. ABEGGLEN, J. C. *Business Strategies for Japan* (Tokyo: Sophia University, 1970).
2. ADMINI, J. *Nihon no keieisō* [The managerial class in Japan] (Tokyo: Nihon-keizai-shimbunsha, 1965).
3. AHARONI, Y. "On the Definition of a Multinational Corporation," in *The Multinational Enterprise in Transition: Selected Readings and Essays*, ed. A. Kapoor and P. D. Grub (Princeton, N.J.: Darwin Press, 1972).
4. ALLEN, T. W. *Direct Investment of Japanese Enterprises in Southeast Asia: A Study of Motivations, Characteristics and Attitudes* (Manila: Ecocen, 1973).
5. FAYERWEATHER, J. "Nationalism and the Multinational Firm," in *The Multinational*

Enterprise in Transition: Selected Readings and Essays, ed. A. Kapoor and P. D. Grub (Princeton, N.J.: Darwin Press, 1972).
6. International Development Center of Japan. *Interim Report: Japan as a Market for Indonesian Products* (Tokyo, 1972).
7. KOBAYASHI, N. "Japan's Role in Southeast Asia Today: Problems and Prospects," Current Issues Seminar Series No. 3 (Singapore: Institute of Southeast Asian Studies, 1973).
8. PANGLAYKIM, J. "Western and Japanese Based Multinational Corporations," presented at the First Japanese-Indonesian Conference on Japan-Indonesian Relations in the 70's organized by the Centre for Strategic and International Studies, Jakarta, December 6–8, 1973.
9. YANAGA, C. *Big Business in Japanese Politics* (New Haven, Conn.: Yale University Press, 1968).